SPRING 1992

Teachers' Pension Plan Board | Ontario | Conseil du régime de retraite des enseignantes et des enseignants

VOLUME 8

EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN

UYING CREDIT IN YOUR PENSION: HE NEW RULES

Now that the deadline has passed for buying credited service under the old rules, what about the new rules? Some details still have to be clarified with Revenue Canada, but the main thrust is this:

- For leaves of absence approved by your employer, the easiest and cheapest way of maintaining credit in your pension is to apply before you go and send us your normal contributions while you're away. That way you won't incur any interest charges.

- The next best thing is to apply *within a year* of coming back from your leave. You'll have another three to five years to pay for it, and the cost will be calculated on the old contributions-plus-interest basis.

- If you miss the application or payment deadline, you'll have to pay "actuarial cost", which can be considerably higher. The cost in your case would depend on your own circumstances. Generally, the closer you are to your 90 Factor and the higher your salary when you apply, the higher the cost.

- Interested in buying credited service for time you spent working in another profession before 1990 (the old "business and industry experience" category)? To be eligible, the company must have had a registered pension plan to which you contributed. Revenue Canada may further restrict this option by allowing a direct transfer of contributions between each plan – we'll keep you informed. In any case, the cost will be actuarial. Get a cost estimate from us before you apply and talk it over with a financial advisor.

- Revenue Canada has restricted the amount of credit you can buy for absences after 1990 to five years, plus three years for maternity.

- Your RRSP room will not be affected if you finish paying for your purchase of credit by April 30 of the year following your return to teaching.

As soon as all the details of the legislation are finalized, we'll publish a brochure explaining all your options. If you'd like a copy, call Phone-A-Memo or your client service representative. We'll send you the brochure as soon as it's available.

Inside this issue

HAVING A CHILD?

You may have heard about the new pregnancy and parental leave law, which entitles you to:

- up to 17 weeks' pregnancy leave for the mother, *plus*
- 18 weeks' parental leave for each parent.

So between them, parents can take 53 weeks' leave on the birth of the child, or 36 weeks if adopting a child.

How does this affect your pension? Thanks to the new legislation, all your benefits automatically continue throughout your leave. Get together with your employer or your client service representative (CSR) before you go so you can arrange the payment of your monthly pension contributions.

If your employer agrees to extend your leave, the best way to maintain your pension credit is to send us your regular contributions every month. For more information, contact your CSR.

PENSION PLAN INVESTS IN CANADIAN BUSINESSES

Since May, 1991, we've committed more than $100 million to companies not listed on public stock exchanges as part of our strategy to diversify the pension plan's assets. Approximately $75 million of these private placements went into Canadian businesses, including:

- $15 million in White Rose Nurseries, Ontario's leading chain of retail lawn, garden and craft centres
- $10 million in Innocan, a diversified holding company with interests in manufacturing, distribution and real estate
- $26 million in Commcorp Financial Services, a national equipment financing and leasing company.

All three are mature, stable companies with a proven track record of income performance.

Small, highly skilled investment team

The private placements portfolio is managed by the "special situations" investment team. "Special situations" is the umbrella term for all non-traded equity investments that fall outside of the stocks and real estate portfolios.

Heading the team is George Engman, Vice President, Research and Development. George has over 15 years' investment and related experience, seven of them with the Ontario Municipal Employees' Retirement System (OMERS).

Making strategic partnerships

How do you invest in companies that aren't listed on the stock exchange? "We can invest in companies that are shown to us by the brokerage industries," says George Engman, "or we can form a strategic partnership with an investment company or a merchant bank, for example.

"Partnerships offer a very good risk-reward relationship. Our partners look after the investment – they're putting up money too, and that gives us a higher level of comfort."

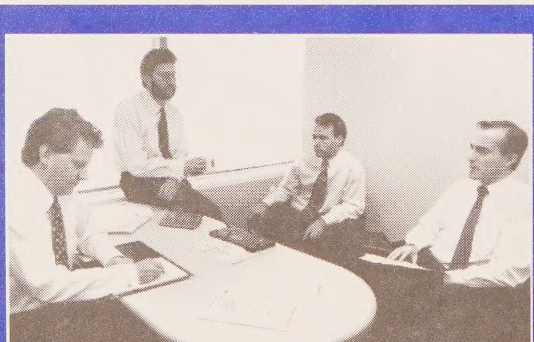
Strategy reduces risk

According to George, it's *how* you invest in a private company that makes it either a safe or a risky proposition. The team aims to maximize returns and minimize risk by buying into midsize and large companies in growth industries that have a steady cash flow.

Our strategy is to take a long, hard look at the company and to choose partners who have an excellent track record. "In the case of Innocan," says George, "their textile division is the lowest-cost producer of yarns in Europe and has 40% of the Canadian worsted business. We think the company is well positioned. We got in at a good price because their parent company over-extended themselves, but operationally they're OK."

Ontario attracts investors

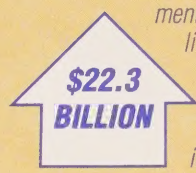
Over the course of this year, the team anticipates investing up to $200 million helping private companies achieve financial stability and growth. Much of this could be in Ontario, which is currently very attractive to investors looking for opportunities to inject funds into growth businesses.



Special Situations investment team: from left to right, Michael Lay, Portfolio Manager; George Engman, Vice-President; Todd Hryhorczuk, Investment Analyst; Dean Metcalf, Assistant Portfolio Manager

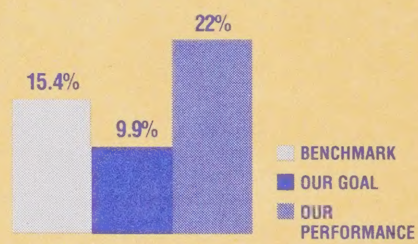
THIRD QUARTER INVESTMENT RESULTS (to September 30, 1991)

TOTAL MARKET VALUE



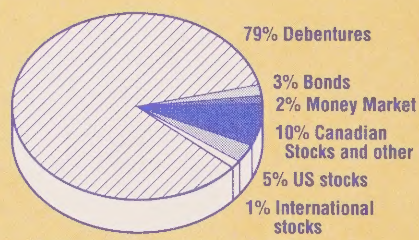
The market value of investments increased $1.23 billion from the $21.07 billion recorded at the end of the first quarter. This increase was due almost exclusively to the increase in value of the debenture portfolio. The market value of the equity portfolio remained relatively unchanged.

FUND PERFORMANCE



The fund grew by more than 6% during the quarter. The rate of return for the 12 months ending September 30, 1991 was 22%, compared to 13.9% for the 12 months ending June 30, 1991.

ASSET MIX



TARGET: 67% EQUITIES, 33% FIXED INCOME

The fund continued to increase its equity holdings by investing in stocks and real estate. However, due to the high market value of the debentures, the share of assets in equities increased only one per cent – from 15% at the end of June to 16% at the end of September.

ASK US A QUESTION

I am concerned about articles I've read in the press recently suggesting that the government plans to use some of our pension money to bail out companies. How will this affect my pension?

Justin D., Niagara Falls

We don't know yet – the details of the government's proposal for a provincial investment fund are still being worked out. From what we've heard, the government envisions each of the five major Ontario public pension plans *voluntarily* contributing five per cent of their annual cash flow to the central fund, which in turn would inject cash into certain companies in Ontario.

We are concerned about the proposal because it would seem to violate our responsibility to the teachers of Ontario. Our mandate is to get the best possible returns on our investments, at the lowest possible risk.

The laws that govern all pension plans also require us to make investment decisions based on financial criteria alone.

Using these criteria, we have already begun to invest in companies in Ontario. Over the next 10 years, through the normal course of business, our investments in Ontario will likely total billions of dollars.

We have a single goal, and that is to ensure that there is enough money in the plan to pay teachers' pensions. Prudent investment is crucial, as approximately 70 per cent of the money to pay pensions comes from investments, and only 30 per cent from teachers' and government contributions. A one-per-cent decrease in investment returns over a long period of time could lead to a 25-per-cent increase in the contribution rate.

Whenever we decide whether to allocate assets to a particular investment fund, we look carefully at who will manage the fund, what their track record is, and what their investment policy will be.

We will use similar criteria when deciding whether to invest in the proposed investment fund, assuming that participation will be voluntary.

When we get more details, we'll keep you informed!

TEACHERS HELP GET RID OF GOBBLEDYGOOK

As part of our overall initiative to upgrade our service to you, we recently took a hard look at how we respond to your inquiries in writing. Faced with a few hundred out-of-date, jargonistic form letters, we decided not only to attempt a major overhaul, but also to get *your* help in rewriting them. What better way of tailoring our services to your needs?

So it was that Grace Dadson, a computer teacher now at Westview Centennial Secondary School in North York, and Steven Talsky, a business teacher from East York Collegiate, put their travel plans on hold last summer to take part in the six-week project.

Grace and Steven rewrote each letter to make it clearer, and then ran it through a grammar-checking computer program to evaluate its readability. "We got rid of the legalese wherever possible," said Grace, "and aimed for a Grade 11 reading level. Teachers are inundated with governing information, but it's important that they understand their pension."

Having Steve's and Grace's input helped us gear the letters to teachers who often have only a basic knowledge of financial or pension issues. "We had to learn a lot about how the pension works before we could rewrite each letter," said Steve. "It's been an interesting experience!"

Thanks to teachers Grace Dadson and Steven Talsky for their help in putting our letters into plainer English!

TIME TO CHANGE YOUR RRSP STRATEGY?

February is traditionally known as RRSP season. It's the month when many Canadians think about making their RRSP contributions for the previous year. But is this really the best strategy?

Calculate 1992 room now

A positive side-effect of the new tax rules is that you know *now* what your contribution limit will be for 1992, so you don't have to scramble next year to make a lump-sum payment for this year. For most teachers, the contribution limit will be $2,922.

1991 RRSP room	1992 RRSP room
EQUALS LESSER OF	***EQUALS LESSER OF***
$11,500	$12,500
OR	***OR***
18% of 1990 earnings	18% of 1991 earnings
MINUS	***MINUS***
PA on 1990 T4	PA on 1991 T4
$2,821 *(for most full-time teachers)*	**$2,922** *(for most full-time teachers)*

Start early and save more

By starting early in the year, you can contribute monthly to your RRSP and get your money working for you sooner. Many people find monthly payments less painful than one lump-sum payment. Best of all, your contributions will be in the plan longer, earning you extra interest. This can add up to tens of thousands of dollars by the time you retire.

35-YEAR MAXIMUM REMOVED

It's confirmed — any service over 35 years you accumulate *after* January 1, 1992 will count towards your pension.

YOUR TPP AND CPP CONTRIBUTIONS: HOW THEY WORK TOGETHER

When you retire, the Teachers' Pension Plan and the Canada Pension Plan work together to provide you with a major source of income. During your teaching career, you contribute a percentage of your earnings to each plan, and your TPP contributions are matched by your employer. The pension you get when you retire is also based on your earnings.

The two pension plans are integrated, which means that your TPP contribution rate is reduced to offset the amount you pay to CPP. Similarly, when you're on pension your TPP pension is reduced to offset your CPP pension. The reduction isn't applied until you're 65, so you can receive a CPP pension from age 60 on top of your regular TPP pension.

COMBINED RATES FOR 1992

Pensionable salary	TPP Contributions	CPP Contributions	Combined contributions
First $3,200	7.3%	0%	7.3%
Next $29,000	7.3%	2.4%	9.7%
Over $32,000	8.9%	0%	8.9%

The TPP rate of 8.9% stays the same for 1992, but the CPP rate has gone up from 2.3% to 2.4%, and the CPP maximum pensionable earnings figure (the amount of income on which CPP contributions are made) has increased from $30,500 to $32,200.

PENSION CONTRIBUTION FORMULA SIMPLIFIED

You may have noticed a difference in your pension contributions. We've simplified the system by replacing the old three-step contribution formula with a two-step formula.

In past years, if you worked for several different employers, you usually ended up overcontributing to the Teachers' Pension Plan and we had to send you a refund.

The new formula takes care of all this by deducting 7.3% on all earnings up to a certain level (the CPP Year's Maximum Pensionable Earnings – $32,200 in 1992).

NEW TWO-STEP FORMULA

Pensionable salary	Contributions
First $32,200	7.3%
Over $32,200	8.9%

Exchange is a publication prepared by the Ontario Teachers' Pension Plan Board. We welcome your comments on this newsletter and suggestions for future newsletters. Contact us at:

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DON'T FORGET TO SEND US YOUR NEW ADDRESS

FINANCIAL PLANNING

Here's the 92/93 schedule for the weekend workshops offered by the Ontario Teachers' Federation. As usual, we'll be there to talk about the pension plan and answer your questions. Look for our display booth, where you can pick up a copy of our latest publications.

OTF restricts attendance to teachers in the local area. For more information, contact your federation or association.

Oct 2–3/92	Barrie
Oct 16–17/92	Goderich
Nov 6–7/92	Sault Ste. Marie
Nov 20–21/92	St. Catharines
Dec 4–5/92	Hamilton
Jan 15–16/93	Metro Toronto
Jan 29–30/93	Oshawa
Feb 12–13/93	Ottawa
Feb 26–27/93	London
Mar 26–27/93	Belleville
Apr 23–24/93	Kapuskasing
May 14–15/93	Thunder Bay

BENEFICIARY RESTRICTED

Previously, if you had no eligible spouse or dependent children at the time of your retirement, you could designate any person of your choice to receive a survivor pension upon your death. Revenue Canada has now restricted this to a parent, grandparent, brother, sister, child or grandchild who is dependent on you for support at the time of your death. There is no restriction on who you can designate as a beneficiary for pre-retirement benefits.

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